[July? 1965?]

Just ten days ago I was privileged to travel to Paris with Major McDivit and Major White. The achievement of these two men is certainly something to be proud of not only because it sets an example to the world of the greatness of America but because it is an indication of the exciting opportunities available to mankind.

This is truly an inspiring age to live in. We have moved ahead in almost every field of knowledge. In field after field what was hope and hypothesis only a few short years ago has grown to workable theory with practical applications.

Our space achievements have required an integration and utilization of all these fields of knowledge.

Equally as impressive is the progress made in Economics. We are on the threshold of learning how National economics can be brought under the influence of deliberate and forward-looking public and private policies. The opportunities which will spring from this are equally as exciting as those in other fields of knowledge. In fact the successful utilization of this knowledge can, to put it in the words of Walter Lippman, "produce a rate of growth in the production of wealth which can wipe out the material causes of Social Conflict." The essential ingredient for the development of our new economics has been agreement on goals and objectives. These are:

-- full employment,

-- rapid economic growth,

-- price stability,

-- equilibrium in our balance of payments.

To achieve these goals we have used a wide array of economic policy instruments, always with the thought in mind that balance and stability were essential; that excesses in any one area might in the end prevent us from achieving any of the other three.

We all know that aggregate demand must be kept sufficiently high to take up the output of our great economy. Hopefully we have learned that to achieve this the Federal government must make wise and flexible use of budget, tax and monetary policies.

Through the use of these instruments we can now count an unprecedented 52 months of expansion. Certainly this could not have been done if we had not reached general agreement on several points

-- That the size of our productive capacity, the potential output of our manpower and plant capacity must be continually measured and evaluated.

-- That total economic demand be adjusted to make full use of that productive capacity.

-- That we must encourage investment to improve our productivity.

Only by moving ahead in a balanced way on all of these points can we prevent waste of our economic potential, and produce not only satisfactory profits to business -- which we must -- but a higher standard of living for everyone.

We have realized that to cut taxes when there is a budget surplus may increase the surplus -- that to raise taxes in the face of a deficit will almost surely increase the deficit.

These theories have now been tested.

<u>We did</u> adopt the 7 percent investment credit and revise the depreciation guide lines and the latest reports indicate businessmen will spend 12 percent more next year on plant and equipment than last years already big total.

<u>We did</u> cut $14 billion from personal and corporate taxes and total demand has pushed our GNP surely above 650 billion dollars in this quarter.

So far the benefits from over 52 months of expansion have been nothing short of phenomenal:

--GNP is running more than a quarter above four years ago and we confidently expect it to reach the 660 billion predicted for this year, almost 6 percent above last year;

-- consumption is up 27 percent;

-- investment is up 38 percent;

-- manufacturing production is up 38 percent;

-- corporate profits after taxes are up 87 percent;

-- personal income has reached 517 billion dollars in May and is running over 27% higher than in January 1961.

During the first quarter, after tax profit per dollar of sales in manufacturing at 5.4 percent was the highest in any comperable period since 1951. In addition to this, we are making solid progress in reducing the unemployment rate, which according to our latest figures is 4.6%, down from a National average of 7.1% at its recession peak in May 1961.

All this has occured with an admirable rate of price stability.

As a further indication of the great strength of our economy, the American public has over two dollars worth of resources for every one dollar of debt owed by it and it should not be forgotten that the Federal debt when looked at in relative terms is shrinking. In fact, in relation to GNP it is now only
of what it was in

In spite of this long period of success and in spite of the demonstrated workability of the theories of our new economics, there are occasionally critics who feel that our period of expansion must end. Strangely some indicate that our policies cannot spur demand enough to keep us moving ahead, while, at the same time, others indicate that demand has been so stimulated we must put on the brakes to halt inflation.

In the first instance, this Administration is committed to the principle of maintaining sound economic expansion within the context of all our economic goals.

What could more clearly attest to this than the signing of the Excise Tax Bill by the President last week. This will bring about a cut in taxes of more than four and one half billion dollars. Almost half of it is effective now and an equal amount on January 1 of next year.

If our tax cuts are passed along to consumers in the form of lower prices, we will certainly have given a big boost to the growth of spending to keep the economy moving ahead. Furthermore the President stated when he signed the bill, "When there is again opportunity for tax revision, we hope, in particular, to provide further tax relief to those in our Nation who need it most -- those taxpayers who now live in the shadow of poverty", indicating his determination to take the additional steps that may be necessary in the future to sustain the business upswing.

Now let me say a word about those who show some concern in the other direction.

Inflation as you know, may arise in two diffrent ways: It may come from too many dollars chasing too few goods.

This is the classic type of inflation. We don't have it now: The manufacturing industires are operating at 3% below businessman's preferred capacity. We still have an unemployment rate above that which we have chosen as our realistic interim goal of 4%. Manufacturing cost per unit of output has actually declined. Furthermore, none of the imbalances are present that usually characterize such an inflation.

-- There has been no unreasonable build-up of inventories; total inventories in relation to sales are lower now than when the expansion began.

-- Industrial capacity has not been built up beyond the capacity of consumers to absorb the output.

-- Most consumer debt is sound and consumers are more credit worthy than ever before.

-- Consumer debt when measured against consumer savings is not alarming.

These facts demonstrate a sound balance in our economy. But the Administration is not complacent; signs of balance -- or unbalance -- are watched continually. No indications now point to an unstable boom or classical inflation.

We must have relatively stable prices -- for domestic and balance of payments reasons. The price stability we have achieved over the last four years has allowed us to pursue expansionary policies.

Consider the losses we would have sustained if we had not pursued these policies -- if our economy had slipped a year ago into a recession such as the four we have had since the end of World War II.

If the economy had followed the average pattern of the postwar recessions, our economic performance for the first quarter of this year would have fallen below what we actually achieved by the following amounts:

-- our rate of total national output would have been $39 billion less;

-- our rate of corporate profits before taxes would have been $18 billion less;

-- our rate of wages and salaries would have been $20 billion less;

-- our federal budget on a national accounts basis would be running at a deficit of more than $15 billion instead of approaching balance.

The other danger of inflation comes from excesses on the part of the private sector of our economy -- that is, from unreasonable use of market power.

Prices rise because of the lack of competitive forces to hold them down.

Most businesses and unions have not indulged in such excesses in this expansion. As a result we have had a remarkable record of price stability. It has kept us competitive in World markets. Think of what our balance of payments deficit would have been if we had not been running a surplus in our exports of more than $6 billion over imports. And this price stability has protected the purchasing power of interest earnings, retirement benefits and insurance payments.

If this stability of prices is to continue, business and labor leaders alike must always have as a consideration in their deliberations, the public interest. To help them in this, the Wage-Price Guideposts have been worked out carefully by the Council of Economic Advisors.

Short term advantages by either labor or business become meaningless if they bring about a wage-price spiral and its inevitable consequences.

This can be avoided by keeping increases in wages and fringe benefits within the limit of about 3.2 percent which is the average gain in labor productivity; this keeps average labor costs steady. And this wage-price spiral can be avoided by business keeping prices down -- raising them only in special circumstances where costs rise and lowering them when they experience specially fast productivity gains.

And again, most important of all, well over a million people working today would be out of a job.

But our task is not merely to avoid recession.

We have set our sights much higher than that.

Our task is to continue the present expansion.

If our efforts were to flag now -- if brakes are set on the expansion in an attempt counteract cost-push, administered-price inflation -- if our rate of real expansion were to drop back to the 2½ percent averaged from 1953 to 1963 instead of the 4½ percent rate we achieved last year, our unemployment rate a year and a half from now would be back up to the 5½ percent rate we had just before the tax cut was passed. Even without a recession we would have lost all the benefits of that major fiscal action.

I don't have to tell you what a fallback to this 2½ percent rate would mean to business.

Operating rates in manufacturing industries would drop -- even without a recession.

For instance, last year capacity utilization rose even though manufacturers added about 4 percent to capacity, because real output grew by 4½ percent and manufacturing output by more than 6½ percent. This year manufacturers plan to add about 6 percent to capacity.

If total real output fails to grow by 4 percent or more, then growth of demand that would justify this growth in capacity, would not materialize.

Expectations would be disappointed and profits would be drained by unused capacity.

Our present expansion <u>can</u> continue on for a long period of time. This is so even though it is already longer than any other peacetime expansion in our history.

Economic policy has developed to the point where we realize that large swings in the business cycle are not an inherent characteristic of the system.

To achieve a continuing expansion however, the evolving Federal business partnership must work with excellence and efficiency toward our agreed goals.

Confidence is the key;

-- Confidence on the part of consumers, the underlying strength of any economy.

-- Confidence by Government in business, as indicated by programs to stimulate investment and tax cuts.

-- Confidence by businessmen in the Government and above all in other businessmen.

This is the formula which will allow us to maintain our leadership in a world which will be led by economic theories inconsistent with the principles of freedom.